PLANNING FOR THE FUTURE

ANNUAL REPORT 1989-90

BRITISH COLUMBIA FERRY CORPORATION

90-06596/

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COVER PHOTO

One of Vancouver *sailing through Active Pass*

BRITISH COLUMBIA FERRY CORPORATION

BRITISH COLUMBIA Ferry Corporation, a Government of British Columbia Crown Corporation, was established on January 1, 1977, as the successor agency to B.C. Ferries. B.C. Ferries has existed since 1960 when the Provincial Government opened frequent ferry service between Vancouver and Vancouver Island using end- loading roll-on/roll-off vessels.

The Corporation now operates the Ferry System with a fleet of 38 vessels, on 24 routes serving 43 terminals. The company has a year-round staff complement of 2460. During 1989-90 the Ferry System carried 19.2 million passengers and 7.5 million vehicles.

The Ferry System is an integral part of British Columbia's coastal transportation system. It links many small islands of the Strait of Georgia to either Vancouver Island or the Mainland, and connects Vancouver Island to the Lower Mainland with two routes. A third Vancouver Island route will be opened on 1 May 1990. It also operates services from Prince Rupert, on the Province's north coast, to the Queen Charlotte Island group and to northern Vancouver Island.

High standards of operation and maintenance make British Columbia's Ferry System one of the world's finest.

THE MINISTER'S MESSAGE

The Honourable
DAVID C. LAM
Lieutenant-Governor
of the Province of British
Columbia

MAY IT PLEASE YOUR HONOUR

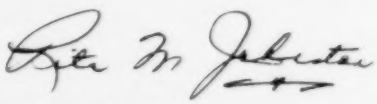
I respectfully submit herewith the Annual Report of the British Columbia Ferry Corporation for the fiscal year ended March 31, 1990 in compliance with the provisions of the Ferry Corporation Act.

The last year has been one of exciting change and growth for the British Columbia Ferry Corporation. In order to keep pace with projected traffic expansion through the next decade - and continue to fulfill its mandate to provide safe, reliable, efficient service to the coast of this vast Province - B.C. Ferries has embarked on a bold Capital Expansion Program.

This new investment in B.C. Ferries will ensure that it will continue to be a key component in the government's long-term transportation plans for British Columbia. The citizens of the Province can be proud of the high level of service the Corporation provides, service that has earned B.C. Ferries an international reputation for excellence and made it a major factor in the Province's booming tourist industry.

It is encouraging to see the Corporation managing change in a sensitive manner, moving - as it is on several fronts - to minimize the system's impact on the environment.

The Government of British Columbia is committed to providing a leadership role in ensuring the effective, safe and timely movement of goods and people. The British Columbia Ferry Corporation, throughout its 30 year history, has always enjoyed the full support of government as it plays its vitally important role in the Province's economic well-being, and this has never been more true than it was during 1989/90.



Rita M. Johnston
Minister of Transportation and Highways
Minister Responsible, British Columbia Ferry Corporation

Rita M. Johnston, Minister of Transportation and Highways

STATISTICAL REVIEW 1989/90

(expressed in thousands)

Year Ended March 31	1990	1989	1988	1987	1986
Operations					
Traffic - Passengers	**19,229**	17,919	17,014	18,235	13,497
- Vehicles	**7,499**	6,885	6,491	6,526	5,049
Miles - Passengers	**358,173**	336,399	317,424	375,893	286,568
- Vehicles	**131,167**	121,714	114,816	123,970	101,426
Utilization %					
- Passengers	**28%**	27%	27%	34%	30%
- Vehicles	**67%**	65%	63%	60%	60%
Financial					
Tolls, Catering and other income	**$ 215,212**	$ 187,599	$ 168,488	$ 163,954	$ 134,900
Operating expenses	**246,189**	224,060	217,296	224,787	184,448
Operating loss	**(30,977)**	(36,461)	(48,808)	(60,833)	(49,548)
Provincial Government Subsidy					
- Operating portion	**6,915**	17,470	57,000	57,000	40,000
- Capital portion	**44,085**	33,530	-	-	-
Cash flow from operations	**10,407**	6,095	27,231	20,309	18,032
Net additions to fixed assets	**17,117**	7,559	9,292	1,817	68,219
Total assets	**389,576**	370,121	365,230	372,523	349,416
Shareholder's equity	**166,595**	188,105	206,898	205,336	224,852
Tolls, Catering and other income per passenger	**$11.19**	$10.47	$9.90	$8.99	$9.99
Operating expenses per passenger	**$12.80**	$12.50	$12.77	$12.33	$13.67
% of operating expenses recovered from operating revenues	**87%**	84%	78%	73%	73%

THE CHAIRMAN REPORTS

To the Honourable
Rita M. Johnston
Minister of Transportation
and Highways,
Minister Responsible for
British Columbia
Ferry Corporation

THE 1989/90 FISCAL YEAR presented many challenges for the British Columbia Ferry Corporation. In the face of strong traffic growth, B.C. Ferries has continued to provide excellent service without additional capital equipment. In 1989-90, the fleet carried over 19 million passengers (up 7.5 percent) and 7.5 million vehicles (up 8.9 percent) with the same reliability and efficiency it has always demonstrated.

The Corporation will continue to meet its mandate by operating its coastal transportation service, and building the facilities required to meet the needs of the people and the economy of our Province over the next decade and beyond. The $440 million Capital Expansion Program which was announced early in 1989 is well underway. During this past fiscal year, planning and design of new vessels and terminal modifications progressed almost to completion.

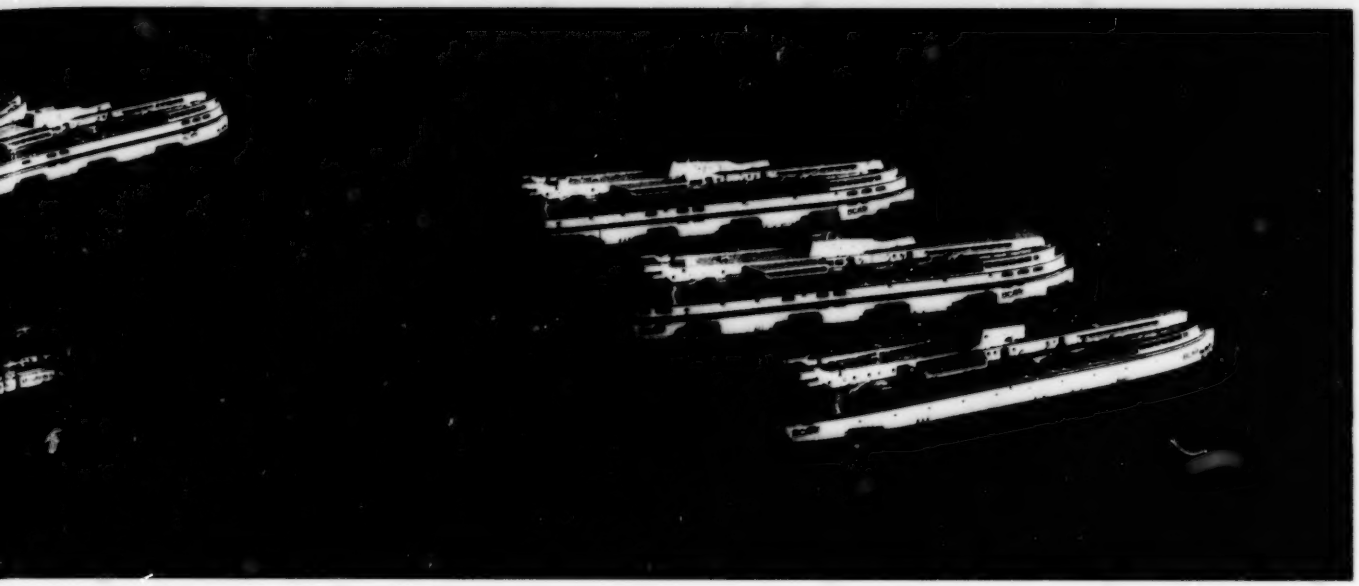
A great deal of care has gone into the design of the ships,

incorporating characteristics that have worked well for the Corporation in the past, with new design features based upon suggestions put forward by employee user committees. The major ferries will be the biggest the Corporation has ever built, providing substantial capacity increases on the cross-Strait Tsawwassen - Swartz Bay service. While two are currently slated for construction, the Corporation expects to need more of these vessels in the latter half of the 1990's, depending on the rate of traffic growth. The intermediate vessels have been designed for duty on our various minor routes, and will help to relieve traffic pressure generally.

Terminal modifications have been designed to ensure effective traffic flow, matching their capabilities to ship capacity. Tsawwassen and Swartz Bay will be considerably expanded. So too will Horseshoe Bay, as this terminal has been experiencing overcrowding for a number of years.

The Corporation has addressed its fiscal responsibilities by structuring its Capital Expansion Program to be affordable within the subsidy and revenue limits

R.W. Long
Chairman of the Board and Chief Executive Officer



Tsawwassen Terminal

established cooperatively with the Government. The program is financially responsible while meeting the transportation needs of the Province's economy.

Corporate operations have also been aimed to achieve fiscal responsibility in order to ensure that users, and the Province, receive good value for their fares, and for the annual $51 million provincial subsidy. In order to assure a continued high level of service, the Corporation and the Province have settled on a mutual commitment to the subsidy for the next ten years.

Alternative forms of ferry transportation were considered during 1989-90, involving smaller passenger-only vessels. However, the ongoing need of industrial and commercial users, and private citizens, for efficient vehicle transportation means that the Corporation continues to be committed to providing that service.

The previous fiscal year (1988-89) was one of intense review, research, planning and decision-making. 1989-90 has continued that process, completing the design stages of the Capital Expansion Program. This program will provide the resources to carry the Corporation through the pivotal decade of the 90's so that it may continue to effectively support the economic and social needs of British Columbians.

The working relationship of the Board of Directors and senior management continues to be a productive one. This close co- operation is essential in the formulation and execution of policy, as we move into the decade facing a myriad of new challenges and heightened public expectations.

On behalf of the Board of Directors,

R.W. Long

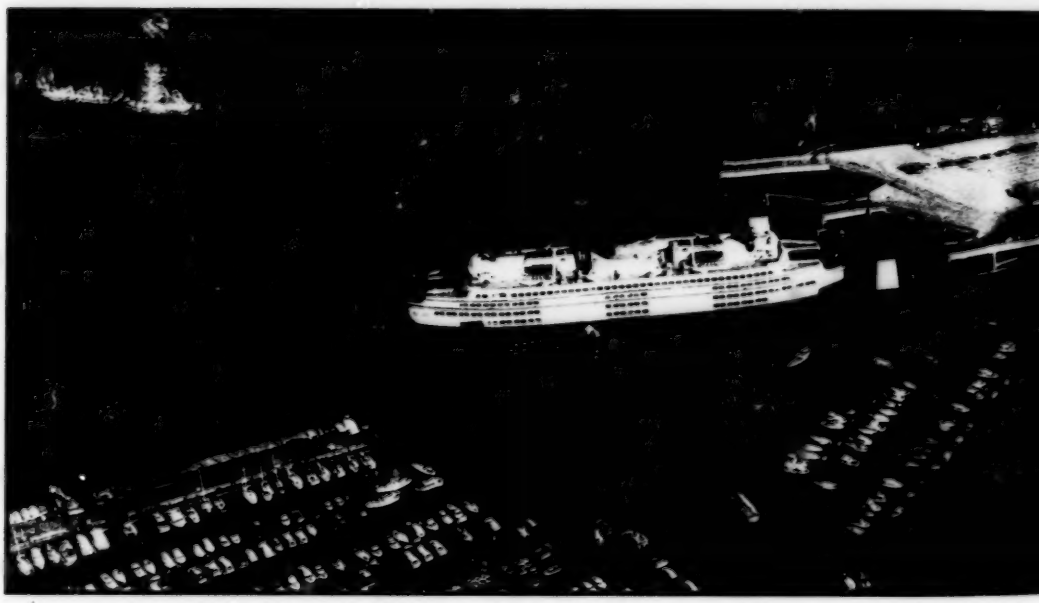
THE GENERAL MANAGER REPORTS

THIS PAST YEAR WAS one of continued growth for B.C. Ferries, with both vehicle and passenger traffic up significantly. Once again our employees successfully met the challenge of providing safe, reliable transportation and the kind of efficient, thoughtful service our passengers have come to expect - service that has created an international reputation for excellence. Forecasts indicate that traffic growth will probably continue for the next several years, and the Corporation is moving quickly to meet the demand. It is possible that the economy could experience a period of recession, which would have the effect of reducing discretionary income for travel and slowing traffic growth. If this were to happen, it would be a temporary situation. In the meantime we must be ready for more traffic in the years ahead, and that is what our Capital Expansion Program is designed to address.

The New Construction Division, which is charged with implementing the Capital Expansion Program, achieved extraordinary results in its first few months of operation, completing the complex planning and design process for four new vessels - two S-Class (470-car), and two intermediate (85-car) vessels. Tenders for all the new vessels will be called during 1990-91. Although delivery of both intermediate ferries is expected in 1991, and the first S-Class ferry in 1992, it may be necessary to acquire another vessel to assist in the short term if forecast traffic increases materialize.

Tremendous progress was also made by the New Construction Division in planning modifications for the four major terminals. The reconstruction of Horseshoe Bay in particular will resolve long-standing problems with traffic congestion and general overcrowding in and around the terminal.

The planning process has been greatly influenced by both public feedback and input from our employees. Our major terminal construction projects



now require environmental reviews before proceeding; the plans for our new vessels and terminal facilities have incorporated many excellent suggestions put forward by employee user committees.

The 1989-90 fiscal year also saw the completion of planning and preparation for the introduction of the "Mid-Island Express" route, connecting Tsawwassen and Nanaimo terminals. This service will reduce pressure on Horseshoe Bay and the busy Upper Levels Highway through North and West Vancouver. It will also benefit commercial trucking companies, saving them both time and money.

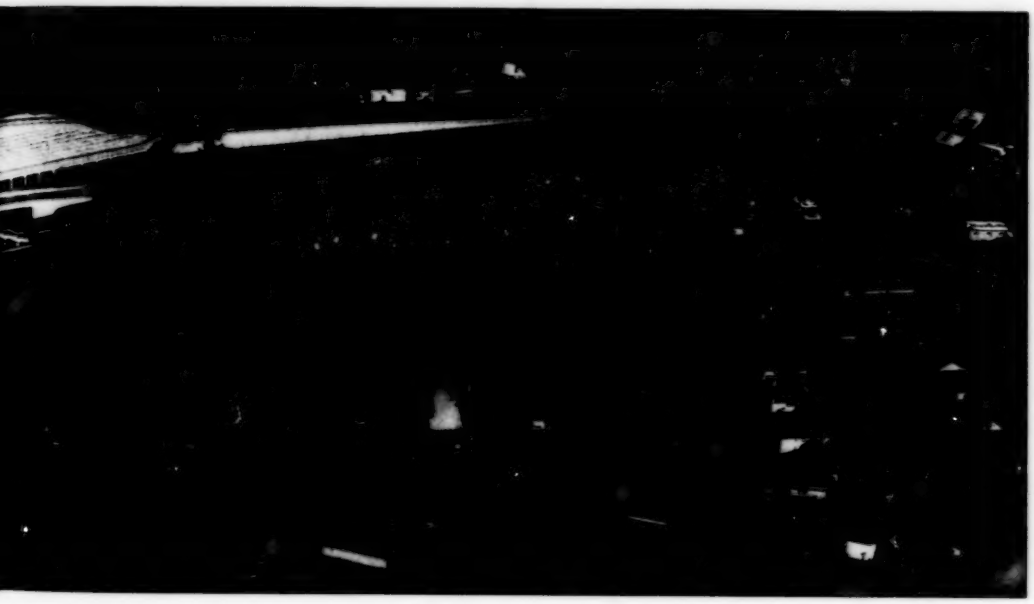
Other important ideas are being considered as well. The smoking/no smoking issue continues under review. Where possible, the Corporation is phasing out most plastics in our food services operation, and introducing new foods more in tune with the demands of our increasingly nutrition-conscious customers. Recycling programs are developing throughout the Corporation, many initiated by employees at local worksites.

The implications of such strong traffic growth are sometimes intimidating, but always challenging. That challenge will be met by our employees who will carry the Corporation's standard of service to new levels. Looking back over this past year, with its emphasis on planning and design one cannot help but be struck by the amount of progress made by our dedicated staff. The accomplishments of 1989-90 augur well for the future of the British Columbia Ferry Corporation.

OPERATIONS

With passenger and vehicle traffic exceeding forecast during 1989-90, the Operations Division responded to the challenge with several initiatives: staff training was increased in order to further improve our staff's people-management skills; contract traffic controllers were hired to co-ordinate traffic flow at the approaches to Nanaimo and Swartz Bay terminals; off-duty police officers were hired to assist with traffic control at the very busy Horseshoe Bay Terminal.

All major ships were fully committed during the summer



Horseshoe Bay Terminal

schedule, placing the Corporation in a vulnerable position without a back-up vessel to call upon in emergency situations. Just such a situation did occur in late June when MV Queen of Coquitlam broke down, requiring a rapid redeployment of vessels. This caused a temporary disruption of services between Horseshoe Bay and Nanaimo, and between Horseshoe Bay and Langdale.

In an interesting development, the chartering of vessels to the movie industry took place three times during the off-season. One prominent movie studio chartered a major vessel for five days of filming.

With the large-scale four-year expansion project at the Port Mellon pulp mill on Howe Sound, and the consequent influx of nearly 1500 workers to the site during the peak construction phases, the Horseshoe Bay - Langdale service experienced a major increase in passenger and vehicle traffic. This, combined with the commencement of construction of the Vancouver Island Natural Gas Pipeline Project through the Sechelt Peninsula, ensures that heavy traffic growth will continue on this service for some time.

Three accidents occurred during the year:

- Berth Two at Horseshoe Bay collapsed due to a mechanical failure on April 29, 1989, remaining out of operation for two and a half months.
- MV Mill Bay, one of our smallest vessels, ran aground on May 28, 1989. No one was injured, and the vessel incurred superficial damage only.
- MV Queen of Alberni experienced mechanical problems while docking at Nanaimo Terminal on June 16, 1989. The berth suffered major damage; some passengers and crew members received minor injuries as a result of the incident. The vessel itself suffered no significant damage and was back in service within 48 hours.

Tragic ferry accidents which have occurred recently in Europe and other parts of the world serve to remind us of the need for constant vigilance during this time of growing demand.

CATERING AND PASSENGER SERVICES

The Catering and Passenger Services Department had an extremely busy year, with sales up by 19.3 percent to $38.8 million, and income after costs increasing to $22.8 million.

It was also a year in which the Department moved quickly to acknowledge and accommodate changing public attitudes toward environmental and nutritional issues. Full environmental and nutritional reviews have taken place, and many permanent changes have been made to serve a healthier product in an environmentally sensitive manner.

Special services have also been expanded. All major vessels now provide a children's play area. By the summer of 1990, each major ship will have a minimum of three pay telephones. Bank machines are planned for Swartz Bay and Tsawwassen in May of 1990, with expansion of the service as appropriate.

A broad-based group of Catering Department employees have been deeply involved with the user committees under the Capital Expansion Program. This began with basic concepts, and led to detailed work with consultants on layouts and equipment specifications. This has been a very positive step, one that has taken advantage of the invaluable knowledge and

experience of our front-line people to provide better, more efficient service to the travelling public.

FLEET ENGINEERING

Our Fleet Engineering operation continued at a very busy level during the year, with 38 vessels to operate, refit, drydock and maintain. Refits were carried out both at local shipyards and at our Deas Dock Refit Complex.

Preparatory work is underway for MV Queen of Alberni to be fitted with new bow and stern doors. Three of the Corporation's ships - MVs Queen of Alberni, Cowichan and Coquitlam (all completed in 1976) - are being fitted with larger, more reliable main engine clutches. These clutches are about six feet in diameter, and weigh five tons each. They will significantly enhance the reliability of these major vessels. Training in asbestos containment and encapsulation maintenance continues at a high level. The Corporation has now spent in the order of $24,000,000 on asbestos removal and containment, and this figure will total approximately $30,000,000 when the program has been completed.

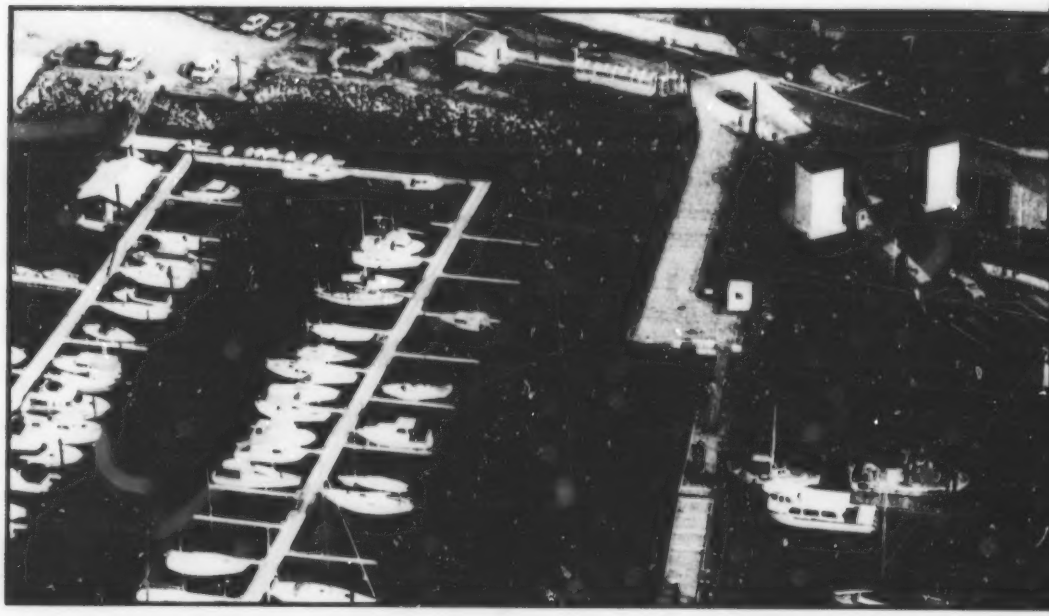
TERMINAL ENGINEERING

Planning continued in Terminal Engineering with the development of conceptual plans for the modification of Swartz Bay, Tsawwassen and Nanaimo ferry terminals. As agreement is reached on the suitability of these plans, they will be passed over to the New Construction Division for further refinement and implementation.

Chief Officer Aaron Salo on the bridge of "Queen of Victoria".

Terminal maintenance and construction continued apace this year. The major contracted maintenance and engineering function of the division has been consolidated at Fleet House under the Manager of Terminal Construction, with appropriate staffing.

Major contracted maintenance and repair took place at several locations, including the replacement of loading ramps at two berths in Horseshoe Bay, and a start on the fabrication of a third replacement ramp. The



support tower superstructure was replaced at the Gabriola Island terminal, and more dolphin and wingwall replacements were completed at Tsawwassen, Horseshoe Bay and Departure Bay.

In conjunction with a Ministry of Transportation and Highways project, the Tsawwassen causeway was widened to provide two lanes for traffic outbound from the terminal. At the same time, a new water main was installed to the terminal, the main benefits being an improved potable water supply for future demand, and the provision of fire protection without the troublesome saltwater pumping system.

The maintenance segment of the division was reorganized, with crews now answering to a new Manager of Terminal Maintenance, responsible for the overall co-ordination of this function.

Day to day maintenance and minor repair work by our crews has been ongoing, ensuring the continued serviceability of all facilities. Annual inspections were carried out at terminal facilities, with quarterly inspections being done by the maintenance crews as part of the routine maintenance program. This function continued to utilize conventional methods augmented with specialized non-destructive testing and underwater video camera assessment.

FINANCE

This past fiscal year was one of adjustments, modifications and performance tuning for the Finance Division. The computerized Walker General Ledger system, which was introduced in 1988/89, is serving the Corporation well. It has improved reporting to managers and simplified the accounting and reconciliation process. It also allows us to respond quickly to ad-hoc reporting requirements.

Work on a number of other computer systems continued during the year. The Deas Dock Materials Management Inventory System was completed, and development of a system providing terminal personnel access to information on the proper handling of cargo (dangerous goods) was started. The dangerous goods system is due to be introduced this

"Howe Sound Queen" at Snug Cove, Bowen Island.

summer.

The introduction of these systems was preceded by the successful installation of a number of computer terminals and personal computers at various locations throughout the Corporation which are also capable of utilizing electronic mail for intra-company communication.

Computerization of the Stores Department was most timely as this year saw the highest inventory turnover in its history. To meet the demands of the Fleet Engineering Refit Program, the Terminal Engineering Maintenance Program, and general operating requirements, over $22 million in issues were processed through the Deas Stores inventory system. This was $6.1 million more than our previous annual turnover of $15.9 million.

In keeping with government supplier development initiatives, the Corporation's role was expanded to include membership in a joint committee of Crown Corporations. Supplier development has always been in the forefront of our purchasing practices, and we have been an active participant in such functions as Market Discovery '89. We view the establishment of the Crown Corporation Supplier Development Committee as a positive step. It ensures the most effective utilization of Crown Corporation buying power, an important factor in the support of economic development in the Province.

During 1988-89, agreement was reached between the Government and the Corporation on the financing of the Capital Expansion Program. The Corporation is now reporting the Government's subsidy in a manner which recognizes the fact that a portion of each annual subsidy will be designated for capital acquisitions.

A federal government tax interpretation, which would have eliminated a federal sales tax rebate, was fought and won by the Corporation. As a result, rebates of over $1.1 million per year that would have been lost, continued to be received.

A tariff increase was approved during the year, and took effect on January 2, 1990. It was targeted to increase fleetwide farebox revenue by 4.3%, which is less than the forecast rate of inflation.

HUMAN RESOURCES AND ADMINISTRATION

During this past year, the Human Resources and Administration function was restructured in order to better meet our mandate to attract, develop, motivate and retain employees necessary to meet current and future human resource needs.

The Division has now set up supporting functions with managers responsible for the areas of Administration, Employee Relations, Safety, Security and Corporate Training. Greater emphasis has been placed upon the requirements of manpower planning with a newly created position responsible for meeting the increasing demands for skilled personnel created by the continued growth of the Corporation.

A highly successful orientation workshop for new supervisors was designed, developed and implemented by Corporate Training. Emphasis on training in general remained high, with a large number of employees receiving training in more than 50 diverse subjects. With our continued emphasis on safety and the provision of a safe work environment, seven new training programs were implemented in response to occupational health and safety concerns.

The Human Resources Division remains committed to providing training and job opportunities within the organization that will allow our employees to reach their maximum potential.

Rod Morrison, General Manager

MARKETING AND PUBLIC RELATIONS

The Department's public relations programs in the 1989/90 fiscal year were a direct, positive response to our passengers' expectations for communication, and participation in the decision-making process.

We're hearing more from our customers than ever before. They are looking for a quality service and quality communication about that service. Requests for communication range from a demand for up-to-the-minute facts about specific services, to calls for a responsible approach to environmental concerns.

While striving to meet these communication challenges, the Department has continued to meet its responsibilities in other areas. We have acknowledged the impact of visitor travel on B.C. Ferries and the Province of British Columbia, through our intensified communication and liaison with the tourism community. The growth of the convention business, especially in the off-season, has had a significant impact.

The changing travel trends in North America have meant increased discretionary travel, particularly in the spring and fall shoulder seasons. The Department has met the demands of travel at non-traditional times with increased operational, educational and on-site information.

Chief Steward Les Stevenson directs a passenger to on-board services.

There has been increased emphasis this year on providing our front-line employees with communication aids, such as the Service Information Cards, which alert passengers ahead of time about disruptions or changes in service.

During this past year, the Department has become increasingly aware that the Corporation must continue to adapt its marketing and public relations programs to changing market trends and customer expectations.

PLANNING

Good planning permits the Corporation to move ahead with a clear view of what to expect, and make decisions that will allow it to cope effectively with future events.

Forecasts compiled by the Planning and Research Department indicate that while there will undoubtedly be economic downturns during the 1990's, we are certain that the dominant trend will be in the direction of strong, continued traffic growth.

Forecasting traffic growth is a critical factor in planning for the future of the Corporation. Through 1989-90 the Planning and Research Department has further refined its ability to predict by utilizing powerful new computer software, in-house statistics and business expertise, and, when appropriate, consultants.

Over the past few years, the Corporation's market research efforts have been fairly modest, generally addressing specific operational issues. The market research program was significantly expanded this year, as an important way to stay in touch with the needs of our customers.

Rod Morrison

Rod Morrison
General Manager

CAPITAL EXPANSION PROGRAM

THE NEW Construction Division was set up in 1989 to spearhead the Corporation's Capital Expansion Program. The division officially commenced operations on July 1, and moved into Victoria premises in early August.

The mandate of the division is to provide the leadership necessary to design and deliver the ships and shore-side facilities needed to meet the tremendous traffic increases experienced over the last two years, and prepare the Corporation to cope with the increases forecast to continue. The demand exists now for these new ships and improved terminals, and there is a real sense of urgency about completing these complex, large- scale projects as quickly as possible.

NEW VESSEL CONSTRUCTION

MAJOR VESSELS

The construction of the first of the Corporation's two S-Class vessels is scheduled to commence in the late fall of 1990. Through this past fiscal year, several critical development stages were completed.

The contract for the initial concept and preliminary design was let in August 1989. The preliminary design was accepted by B.C. Ferries in January 1990 and the contract to produce the specifications and contract drawings was let at the same time, for completion by March 1990. It is expected that the first vessel will be delivered in the summer of 1992; the second in the spring of 1993.

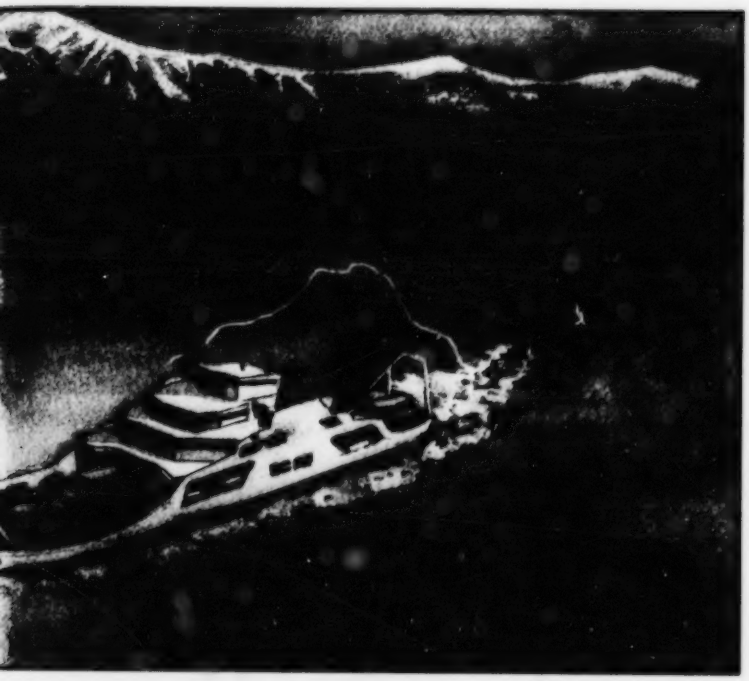
The design of these new ferries incorporates the input of several user committees drawn from within the Corporation, which provided the operational requirements for the ship/terminal interface. These committees represented major and minor ships, each major terminal, and the Catering Department. They provided excellent recommendations to improve vessels and service.

The new vessels have been designed to maximize the efficient flow of traffic during loading and unloading. Terminal modifications will also enhance traffic flow, and are designed to effectively accommodate these vessels.

INTERMEDIATE VESSELS

The design of the intermediate vessels was completed in February 1990 and the invitation to tender issued to five B.C. shipyards. Tender submissions are scheduled for opening in April 1990. The first vessel is planned to be commissioned in June 1991.

As with the major vessels, the intermediate vessels have incorporated employee user committee input, new design features and technological improvements in order to meet



An artist's rendering of a new intermediate vessel.

service requirements of the Southern and Northern Gulf Islands and the Sunshine Coast areas for the next 10 to 20 years. They will carry 85 vehicles, with a total passenger and crew complement of 336. They will be true double-ended vessels with two control consoles in the wheelhouse, and propulsion units at both ends.

MAJOR VESSEL (470 AUTO EQUIVALENTS)

	METRIC	IMPERIAL
■ Displacement	11,445 tons	10,219 long tons
■ Length overall moulded	167.5 metres	549.4 feet
■ Breadth (maximum)	27.5 metres	90.2 feet
■ Draft moulded (fully loaded)	5.0 metres	16.4 feet
■ Freeboard (fully loaded)	3.0 metres	9.84 feet
■ Service speed	19.3 knots	19.3 knots
■ Installed Power	15,600 kw	20,900 H.P.
■ Twin screw, twin rudder and twin bow thruster.		

INTERMEDIATE VESSEL (85 AUTO EQUIVALENTS)

■ Displacement	2,500 tons	2,232 long tons
■ length overall moulded	96.0 metres	314.9 feet
■ Breadth (maximum)	21.2 metres	69.5 feet
■ Draft (maximum full load)	4.26 metres	14 feet
■ Freeboard (fully loaded)	3.5 metres	11.5 feet
■ Service speed	14.3 knots	14.3 knots
■ Installed Power	5,370 kw	7,195 H.P.
■ Powered by four right-angle drive units		

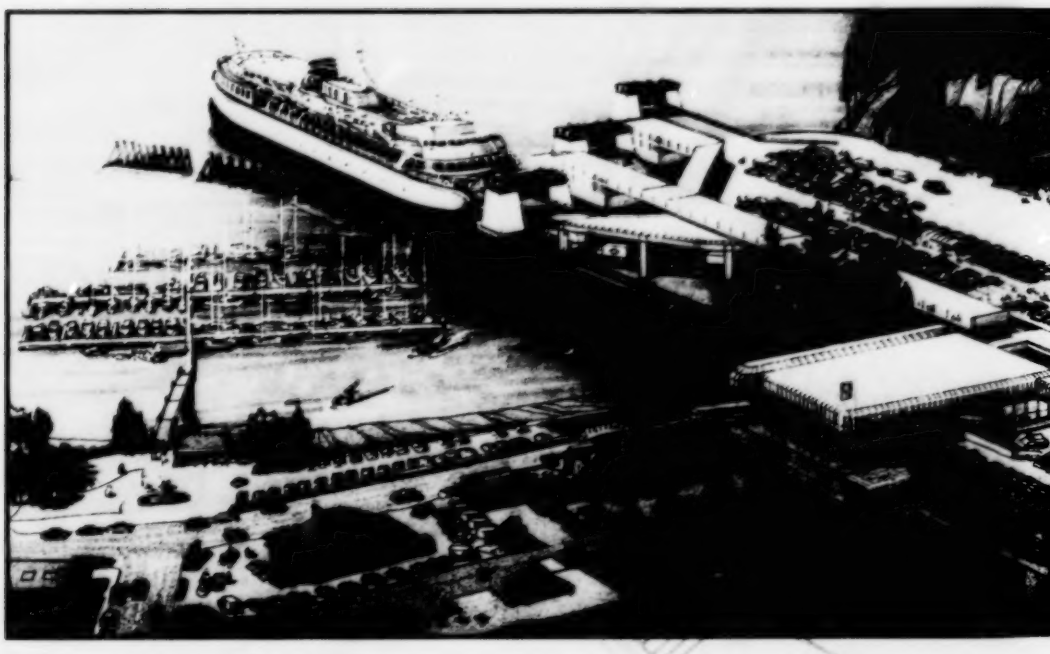
TERMINAL MODIFICATIONS

The terminal modifications are intended to provide customer-friendly facilities, with improved traffic flow, more parking space and larger holding areas, less congestion, improved signage and enhanced passenger amenities. Construction is scheduled to commence in 1990-91 at all terminals.

HORSESHOE BAY TERMINAL

Horseshoe Bay is the Corporation's busiest and most congested major terminal, loading in excess of 1.5 million vehicles and 3.625 million passengers during 1989-90. The local community at Horseshoe Bay is concerned about traffic congestion at the terminal and on the approach highway, but continuing discussions with them have contributed to a plan that will alleviate long-standing problems by providing greatly enlarged parking areas and revised traffic flow patterns. An extensive redevelopment is to be completed by the fall of 1992. The major components of this $34 million project include:

- Double-decking of the existing holding compound to hold 1500 cars.
- Construction of a four-level parkade to hold 750 cars.
- Improvement of passenger and administration facilities.
- Construction of three additional ticket booths.



SWARTZ BAY TERMINAL

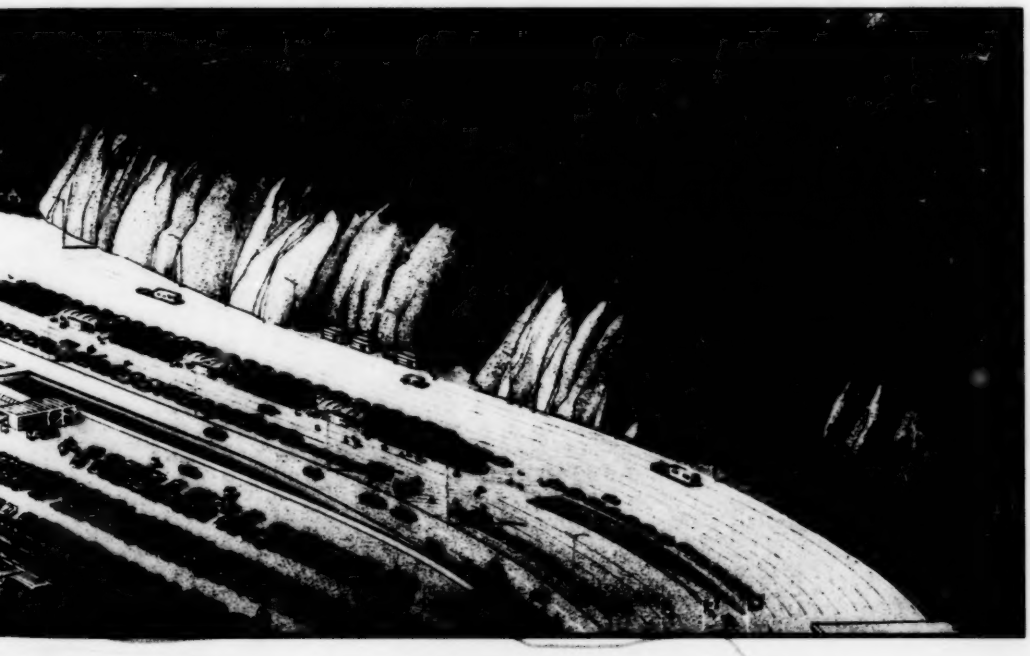
To accommodate the increased lift-off capacity of the two planned S-Class ferries, two of the existing three major berths will be relocated and enlarged. Plans also include improvements to the marshalling area and parking lots, construction and relocation of buildings and ticket booths, and important changes to the access highway outside the terminal. Estimated cost is $32 million. All work is scheduled to be complete by 1992.

TSAWWASSEN TERMINAL

Initial improvements to Tsawwassen terminal will be completed by 1992. These improvements to the docking facilities will enable the terminal to efficiently handle the S-Class ferries. During 1989-90 the access causeway was widened to four lanes which significantly speeds the flow of mainland bound traffic.

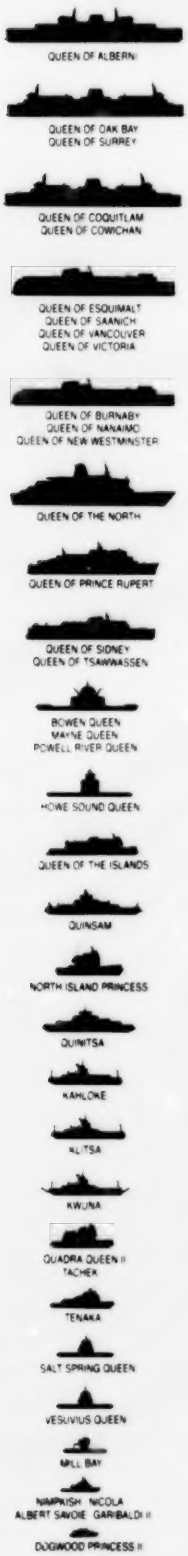
NANAIMO TERMINAL

The Corporation is considering spending just over $8 million at Departure Bay on improvements to be completed by 1992, including widening the current upper ramps to two lanes and moving the ticket booths to allow for better vehicle holding. These changes will allow more efficient movement of traffic on and off the ships, and onto the road and highway system.



An early architectural rendering showing proposed changes to Horseshoe Bay Terminal.

THE FRIENDSHIP FLEET



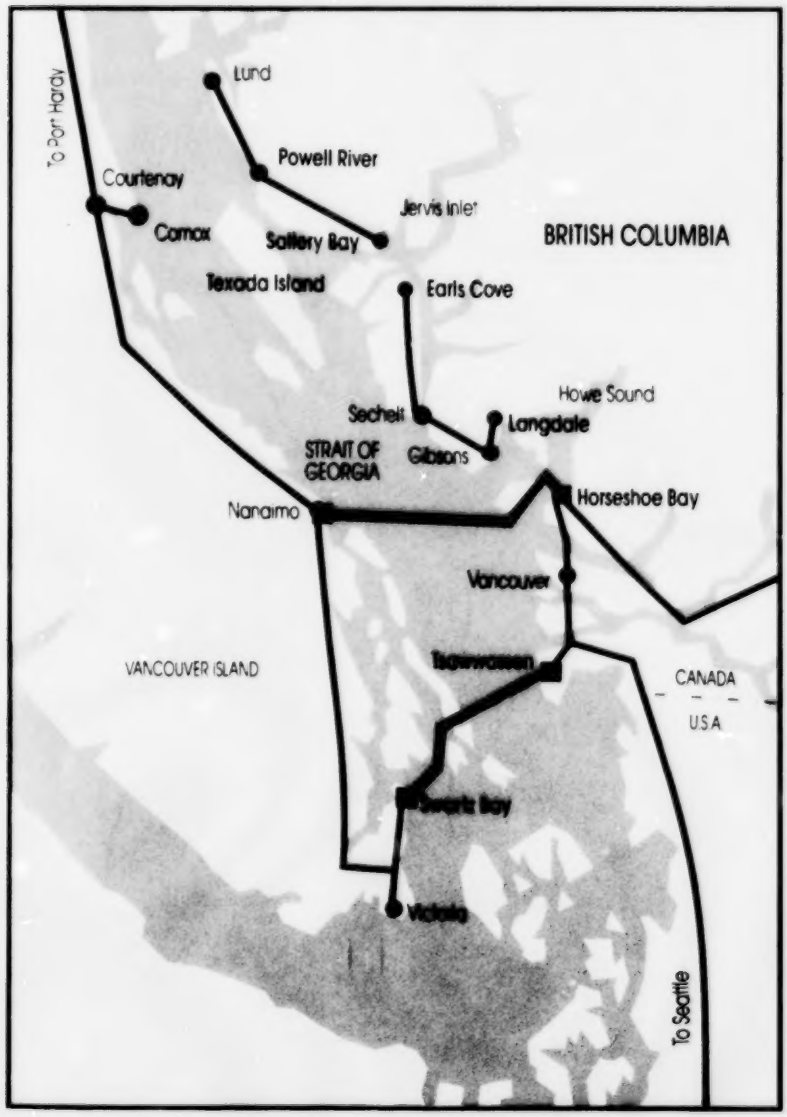
	Year Built	Length (Ft.)	Tons (Gross)	Capacity (Auto)	Capacity (Pass.)
Queen of Esquimalt	1963	427	9304	376	1360
Queen of Saanich	1963	427	9302	336	1360
Queen of Cowichan	1976	457	6551	362	1466
Queen of Coquitlam	1976	457	6551	362	1466
Queen of Oak Bay	1981	457	6969	362	1466
Queen of Surrey	1981	457	6969	362	1466
Queen of Alberni	1976	457	5863	300	1170
Queen of Vancouver	1962	427	9357	336	1360
Queen of Victoria	1962	427	9369	286	1360
Queen of Burnaby	1965	427	4903	192	1183
Queen of Nanaimo	1964	427	4939	192	1183
Queen of New Westminster	1964	427	4904	192	1183
Queen of the North	1969	410	8889	157	800
Queen of Sidney	1960	336	3128	138	989
Queen of Tsawwassen	1960	336	3127	138	989
Queen of Prince Rupert	1966	332	5864	80	504
Powell River Queen	1965	279	1486	70	400
Howe Sound Queen	1964	241	805	70	400
Mayne Queen	1965	279	1476	70	394
Bowen Queen	1965	279	1476	70	394
Quinsam	1982	285	1458	70	400
Quinitsa	1977	245	1107	50	394
North Island Princess	1958	197	841	49	293
Queen of the Islands	1963	236	1717	45	483
Salt Spring Queen	1949	145	276	36	175
Vesuvius Queen	1950	150	277	32	135
Quadra Queen II	1969	163	771	30	293
Tachek	1969	163	751	30	200
Kahloke	1973	180	466	30	195
Klitsa	1972	156	348	26	195
Kwuna	1975	180	347	26	150
Tenaka	1964	155	651	30	244
Mill Bay	1956	120	175	16	134
Nicola	1960	110	255	16	129
Albert J. Savoie	1961	114	256	16	133
Nimpkish	1973	111	266	16	133
Garibaldi II	1964	110	337	7	332
Dogwood Princess II	1979	42	21	-	38

VANCOUVER ISLAND SERVICE AREA

THE STRAIT OF Georgia Services continued to generate strong growth during 1989-90. Passenger traffic rose 7.4% and vehicle traffic rose 8.0%. This represents almost 700,000 additional passenger trips over 1988-89.

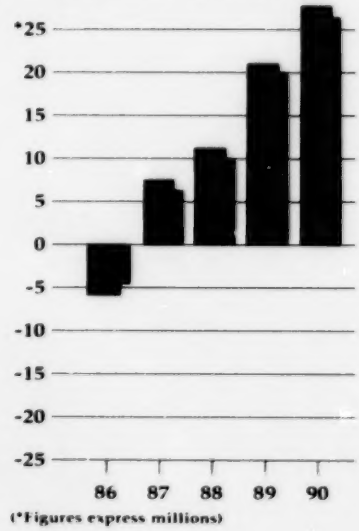
High utilization on these services has prompted the Corporation to initiate the Capital Expansion Program which will put two larger ships onto the Swartz Bay - Tsawwassen service by 1993. This will help to alleviate the overloading (vehicles left behind due to lack of capacity) and reduce such occurrences to more acceptable levels. During 1989-90 the frequency of overloading in the summer months exceeded 50%. In fact, on the Horseshoe Bay - Nanaimo service, sailings in August were full almost 70% of the time.

One consequence of such high traffic and utilization is that the service can be priced economically and still breakeven. The surplus, this year a total of $28.4 million, will help to offset the costs of the necessary capital works, in ships and terminals, which will improve the cross-Strait transportation service.



VANCOUVER ISLAND/ MAINLAND SERVICE AREA

Income/Loss after Depreciation
(Year Ended March 31, 1990)



(*Figures express millions)

SUNSHINE COAST SERVICE AREA

THIS SERVICE AREA includes routes in Howe Sound (Horseshoe Bay to Bowen Island and to Langdale; from Langdale to Gambier and Keats Islands), in Jervis Inlet (between Earls Cove and Saltery Bay) and in the Strait of Georgia (from Powell River to Comox and to Texada Island).

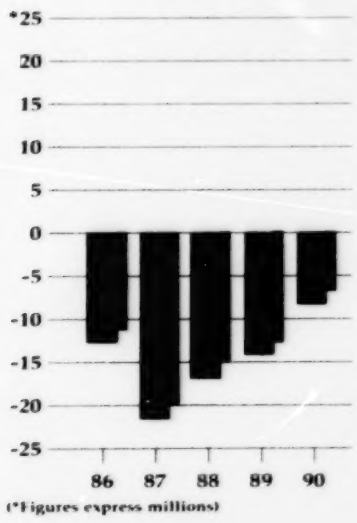
During 1989-90, traffic in this area increased 9.2% in passengers and 13.4% in vehicles.

The greatest growth has occurred on the Langdale service (11.1% in passengers, 16.5% in vehicles). A major redevelopment project at the Port Mellon pulp mill has given rise to significant increases in commercial vehicle traffic and in traffic generally. In fact commercial volumes have increased by more than 25% in every month of the year. Since this service becomes more economic as its total traffic grows, the Corporation believes that traffic volume will continue at these new levels even after the construction phase is over. The construction of the Vancouver Island Natural Gas Pipeline through the Sunshine Coast may also support traffic growth.

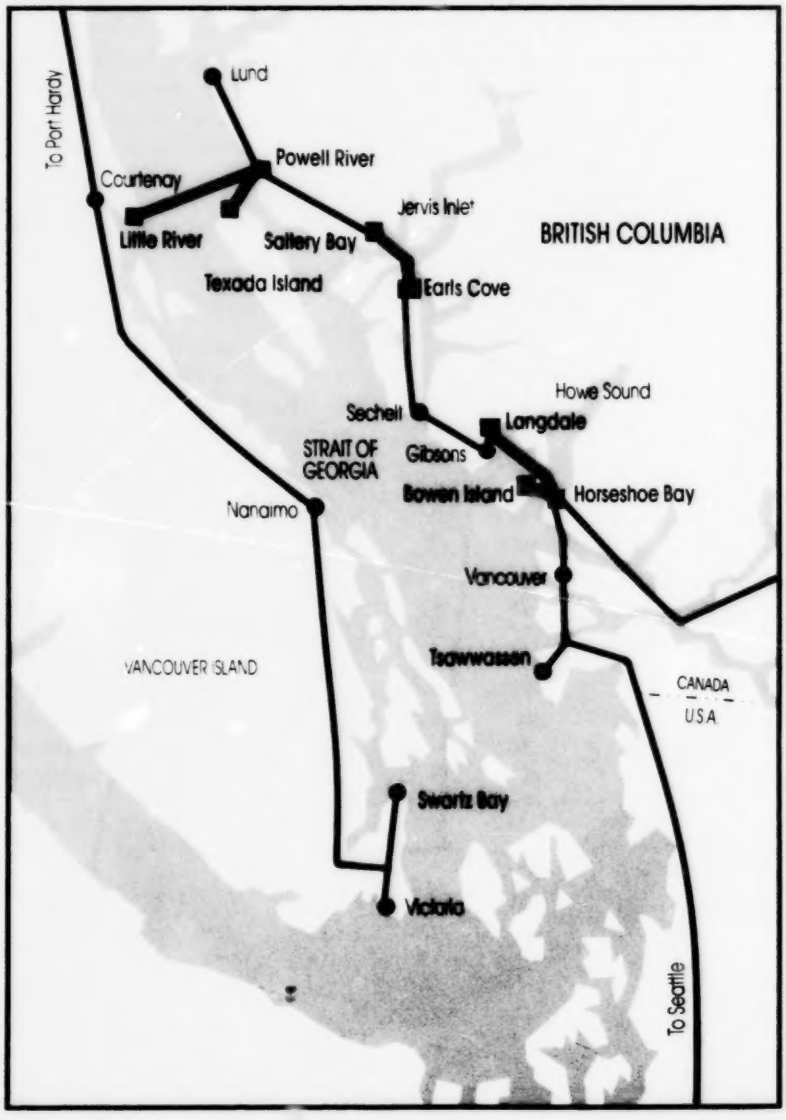
As an operating group these routes generated a deficit of $8.8M in 1989-90, a 38% improvement over the previous year.

SUNSHINE COAST SERVICE AREA

Income/Loss after Depreciation
(Year Ended March 31, 1990)



(*Figures express millions)



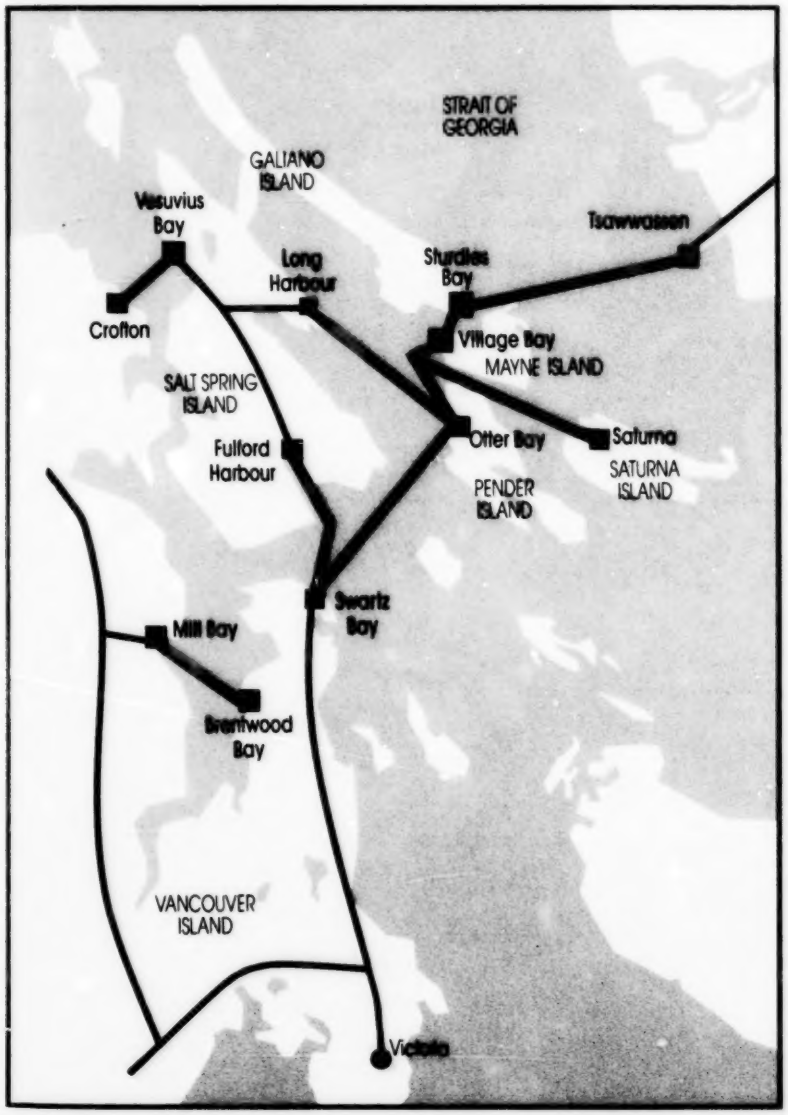
GULF ISLANDS SERVICE AREA

THIS AREA INCLUDES services to the islands of Galiano, Mayne, Pender, Salt Spring and Saturna from both Swartz Bay on Vancouver Island and Tsawwassen on the Lower Mainland. Additional services link north Salt Spring to Vancouver Island (Vesuvius Bay to Crofton), and link Brentwood Bay on the Saanich Peninsula to Mill Bay.

Passenger traffic grew by 8.0%, and vehicle traffic grew by 9.5% during 1989-90.

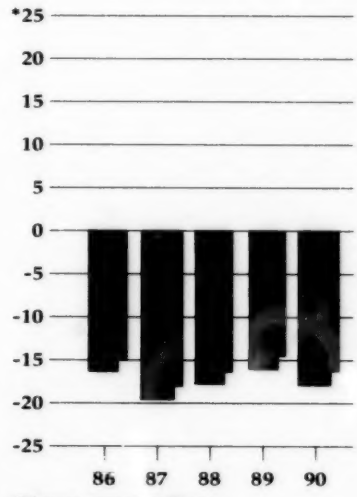
Significant demand pressures are arising on the two multiport routes - Tsawwassen to Galiano/Mayne/Pender/Salt Spring and Swartz Bay to Pender/Mayne/Saturna/ Galiano. Such routes by their nature are expensive to operate (multiple stops mean the vessels use proportionately more time in port than in transporting traffic). However, solutions to these problems can only be implemented if additional ships can be made available.

During 1989-90 this area generated a deficit of $16.7M, 4% higher than last year.



GULF ISLANDS SERVICE AREA

Income/Loss after Depreciation
(Year Ended March 31, 1990)



(*Figures express millions)

MID AND NORTH ISLANDS SERVICE AREA

THE SEVEN ROUTES OF this area link the islands of Kuper, Thetis, Gabriola, Hornby, Denman, Cortes, Quadra, Cormorant and Malcolm to Vancouver Island. Service is provided by a variety of vessels in the 16-car to 70-car range, offering frequent service every day of the year. Annual vehicle volumes range from as low as 40,000 at Cortes Island to over 360,000 at Quadra Island.

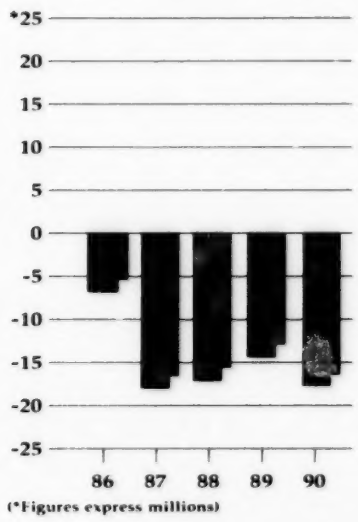
Traffic growth in this area accelerated significantly in 1989- 90. Passenger traffic grew 6.1% (compared to 2.5% last year) and vehicle traffic grew 5.9% (3.3% last year).

Each route serves a distinct community with its own economy and lifestyle. This is reflected in their transportation needs. The largest routes, to Gabriola Island and Quadra Island, provide these populations with quick access to their respective urban centres - Nanaimo and Campbell River. The daily transportation of schoolchildren is a significant component of Quadra Island traffic. School traffic is also substantial for the Thetis/Kuper and Alert/Sointula services.

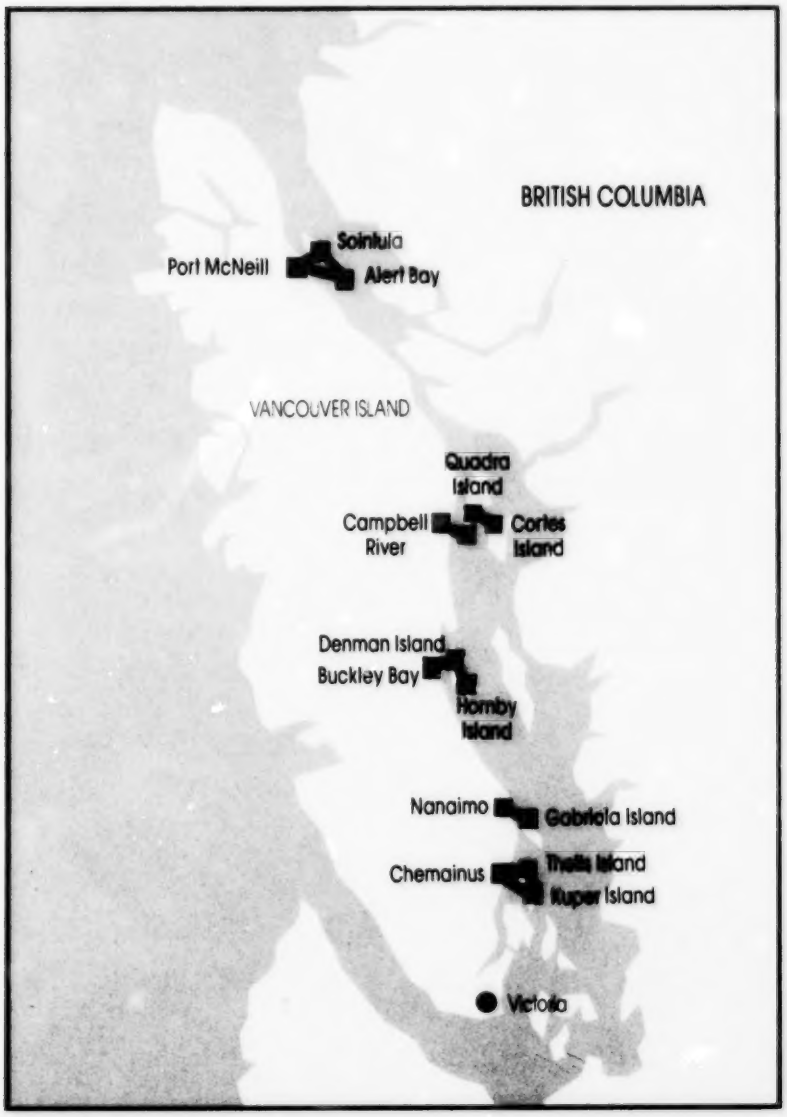
Unfortunately, the area continues to generate a deficit, this year $16.8M, up 13% from 1988-89.

MID & NORTH ISLANDS SERVICE AREA

Income/Loss after Depreciation
(Year Ended March 31, 1990)



(*Figures express millions)



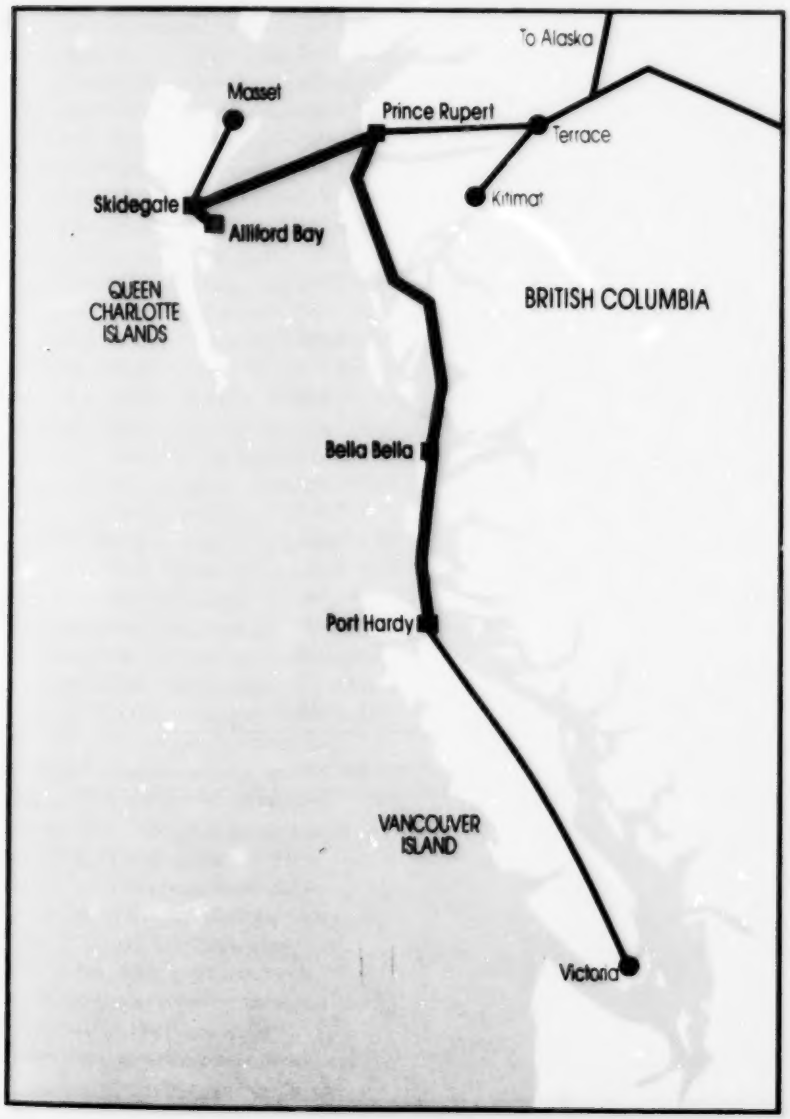
MID AND NORTH COAST SERVICE AREA

THESE ROUTES LINK Prince Rupert, on the Province's mainland, to Port Hardy on northern Vancouver Island and to the Queen Charlotte Islands. In addition, a 26 car vessel connects the two main islands of the Queen Charlottes' group, operating between Skidegate and Alliford Bay.

The Inside Passage service, from Port Hardy to Prince Rupert is a popular tourist journey during the summer months. In fact, utilization of vehicle capacity on the service now exceeds 90% from June to October. However the nature of the traffic dictates that passenger-space utilization peaks at approximately 60%.

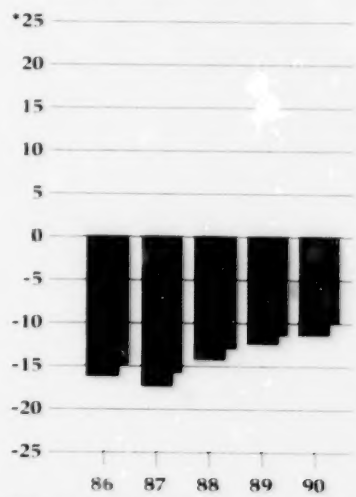
The Queen Charlotte Island service is markedly different from that on the Inside Passage. It is much more resident-oriented, directed to the transportation of commercial vehicles and year-round local traffic.

During 1989-90 traffic in this area grew 4.3% in passengers, and 4.9% in vehicles. The deficit decreased by 5%, to $12.9M.



MID & NORTH COAST SERVICE AREA

Income/Loss after Depreciation
(Year Ended March 31, 1990)



(*Figures express millions)

TRAFFIC HISTORY

Year ended March 31, 1990

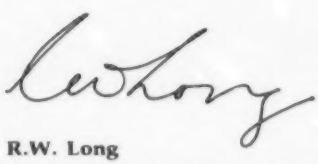
	PASSENGERS	VEHICLES
1961	692,000	221,000
1962	2,040,000	697,000
1963	2,665,000	895,000
1964	3,180,000	1,034,000
1965	3,300,000	1,185,000
1966	4,000,000	1,333,000
1967	4,477,000	1,516,000
1968	4,361,000	1,530,000
1969	4,774,000	1,733,000
1970	5,671,000	2,102,000
1971	5,963,511	2,228,412
1972	6,771,837	2,552,505
1973	7,629,385	2,824,964
1974	8,538,297	3,169,582
1975	9,612,501	3,558,234
1976	9,912,738	3,760,099
1977	8,383,502	3,044,167
1978	9,018,976	3,258,017
1979	10,399,203	3,758,628
1980	11,423,405	4,161,302
1981	12,512,898	4,625,917
1982	12,763,664	4,712,951
1983	12,275,466	4,462,731
1984	12,397,905	4,482,707
1985	11,912,943	4,460,069
1986	13,497,102	5,050,165
1987	18,235,197	6,525,684
1988	17,014,098	6,490,918
1989	17,879,117	6,884,784
1990	19,228,592	7,499,213
TO 1989-90	270,530,337	99,757,049

MANAGEMENT REPORT

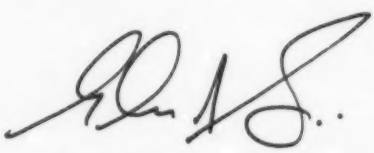
THE FINANCIAL Statements of the British Columbia Ferry Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada which have been consistently applied, after giving retroactive effect to the changes explained in Note 1, and are appropriate in the circumstances. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to the financial statements. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Management depends upon a system of internal controls in order to provide reasonable assurance, on a cost-effective basis, that financial information is reliable and accurate. The system of internal controls is monitored by internal auditors. Our external auditors also independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements. The Audit Committee, which is comprised of directors who are not employees, meets regularly with representatives of the external auditors, the internal auditors and management in order to satisfy themselves that the B.C. Ferries' system of internal controls is functioning correctly.

Management is responsible for all of the information in this Annual Report, which has been reviewed by the Audit Committee and approved by the Board of Directors.



R.W. Long
Chairman and Chief Executive Officer



G.A. Brown
Assistant General Manager, Finance

June 4, 1990

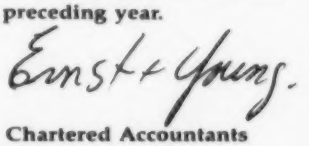
THE AUDITORS' REPORT

ERNST & YOUNG
Chartered Accountants

To the Lieutenant-Governor in Council
Province of British Columbia:

WE HAVE EXAMINED THE balance sheet of British Columbia Ferry Corporation as at March 31, 1990 and the statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes, with which we concur, in the methods of accounting for refit costs and Provincial Government Subsidy as explained in note 1 to the financial statements, on a basis consistent with that of the preceding year.



Chartered Accountants
Victoria, Canada
May 18, 1990

BALANCE SHEET

As at March 31

ASSETS

(expressed in thousands)

	1990	1989
Current Assets		
Cash	$ 26,071	$ 14,868
Accounts receivable	4,610	2,845
Inventories (Note 2)	11,133	10,768
Prepayments and deposits	4,601	4,757
Current portion of reserved funds	5,700	5,700
Current portion of debenture	980	905
	53,095	39,843
Reserved Funds (Note 3)	66,412	45,911
Debenture (Note 4)	38,245	39,226
Fixed Assets (Note 5)		
Ships, berths, buildings, equipment and land	582,222	565,104
Less accumulated depreciation	351,694	322,179
	230,528	242,925
Deferred Charges	1,296	2,216
	$ 389,576	$ 370,121

Approved by the Board

Joseph Morris

Director

Director

LIABILITIES

	1990	1989
Current Liabilities		
Accounts payable and accrued liabilities	$ 23,229	$ 20,351
Deferred revenue	4,315	2,407
Current portion of long term debt	5,700	5,700
Current portion of obligations under capital leases	1,476	1,348
	34,720	29,806
Long Term Debt (Note 6)	20,458	26,158
Obligations Under Capital Leases (Note 7)	85,873	86,878
Capital Subsidy (Note 8)	76,096	33,439
Accrued Sick Leave Liability (Note 9)	5,834	5,735
	222,981	182,016

SHAREHOLDER'S EQUITY

Share Capital		
Authorized		
1,000,000 shares without par value with a maximum consideration of $100,000,000		
Issued		
68,512 shares	6,851	6,851
Contributed Surplus	250,401	250,401
Deficit (Note 10)	(90,657)	(69,147)
	166,595	188,105
	$ 389,576	$ 370,121

STATEMENT OF OPERATIONS AND DEFICIT

(expressed in thousands)

Year ended March 31	1990	1989
Operating revenues		
Tolls	$ 174,837	$ 153,114
Catering and other income	40,375	34,485
Operating subsidy	6,915	17,470
	222,127	205,069
Operating expenses		
Salaries, wages and benefits	130,983	116,919
Depreciation	28,087	28,807
Fuel and lubricants	27,412	23,707
Operating supplies and services	23,713	20,807
Repairs, maintenance and replacements	16,307	15,586
Cost of food and goods sold	14,366	12,726
General and administration	5,321	5,508
	246,189	224,060
Excess of operating expenses over operating revenues	(24,062)	(18,991)
Interest income	12,643	7,958
Interest on long term obligations	(10,091)	(11,229)
Net interest income (expense)	2,552	(3,271)
Excess of expenses over revenues for the year	(21,510)	(22,262)
Deficit at beginning of year (Note 10)	(69,147)	(46,885)
Deficit at end of year	$ (90,657)	$ (69,147)

STATEMENT OF CHANGES IN FINANCIAL POSITION

	(expressed in thousands)	
Year ended March 31	**1990**	1989
Operational activities		
Excess of expenses over revenues for the year	**$ (21,510)**	$ (22,262)
Depreciation and amortization	**29,006**	29,950
Net cash generated from (used for) operating working capital	**2,911**	(1,594)
	10,407	6,094
Financial activities		
Capital subsidy	**44,085**	33,530
Payments from reserved funds	**5,700**	5,700
Long term debt payment	**(5,700)**	(5,700)
Payments received on debenture	**906**	834
Capital lease payments	**(877)**	(845)
Payments to reserved funds	**(26,201)**	(39,315)
	17,913	(5,796)
Investment activities		
Fixed asset additions	**(17,117)**	(7,559)
Increase (decrease) in cash	**11,203**	(7,261)
Cash at beginning of year	**14,868**	22,129
Cash at end of year	**$ 26,071**	$ 14,868

In this statement cash includes only cash available for day to day operations and does not include Reserved Funds cash.

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 1990

1. SIGNIFICANT ACCOUNTING POLICIES

The Corporation was incorporated under the Ferry Corporation Act on June 30, 1976 and commenced operations on January 1, 1977. The shares of the Corporation are held by the Minister of Finance as representative of Her Majesty the Queen in right of the Province of British Columbia.

In accordance with Section 8(7) of the Ferry Corporation Act the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies adopted in the preparation of these financial statements are as follows:

Inventories:
Inventories are valued at the lower of cost and current replacement cost.

Fixed assets:
Certain ships, berths, buildings and equipment were transferred from the Province in prior years. These assets were recorded at estimated depreciated replacement value at the dates of acquisition. Included in these values are three ships under charter by the Province until 1994 which were subchartered to the Corporation for the same period at an annual cost of $1 each. The Corporation may request the Province, at its expense, to exercise its option to purchase the ships in 1994 and transfer title to the Corporation under the terms of the subcharter agreement.

The costs of all other major replacements, additions, extensions and improvements are capitalized in the fixed asset accounts. The costs of maintenance, repairs, and minor renewals or replacements are expensed as incurred.

Depreciation:
Fixed assets, including assets recorded under capital leases, are depreciated using the straight line method based upon the useful lives of the assets as determined by the Corporation.

Amortization of long-term debt discount and issue costs:
Promissory note discount is amortized on a compound interest method over the term of the debt. Issue costs for promissory notes and capital leases are amortized on a straight line basis over the term of the debt.

Refit costs:
During the year, the Corporation adopted a policy of expensing refit costs as incurred. In prior years, the Corporation provided for ship refit expense by charging income with the anticipated refit costs over the period between refits. This change in accounting policy has been applied retroactively. Had the previous policy been continued, the effect on the statement of operations in the current year would not be significant.

Provincial Government Subsidy:
The annual subsidy received from the Province of British Columbia is applied firstly to cover the annual operating loss excluding depreciation plus the net interest expense and the current portion of long term debt and capital lease repayments and applied secondly to a capital subsidy account. This accounting treatment reflects the government's stated intention that capital maintenance and expansion be financed from the annual subsidy. The unexpended portion of the capital subsidy account is deferred. The expended portion is amortized on the same basis as the related fixed assets are depreciated.

This method of accounting for the annual subsidy has also been reflected in the comparative figures.

Contributed surplus:
Contributed surplus represents the excess of estimated depreciated replacement value over assigned value of $1 of certain assets acquired in prior years from the Province of British Columbia.

Comparative figures:
Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

2. INVENTORIES

	March 31, 1990	March 31, 198
	($000)	
Spare components, parts and supplies	$ 9,156	$ 9,02
Fuel and lubricants	1,031	1,00
Catering supplies and goods for resale	946	74
	$ 11,133	$ 10,76

3. RESERVED FUNDS

Funds designated for specific purposes are segregated by the Corporation.

	March 31, 1990	March 31, 1989
	($000)	
Funds designated for capital expenditures	$ 52,939	$ 33,212
Funds designated for long-term debt and capital lease payments, net of current portion	7,639	6,964
Funds designated to meet accrued sick leave liabilities	5,834	5,735
	$ 66,412	$ 45,911

4. DEBENTURE

The debenture from the Province of British Columbia bears interest at 8.18% per annum and is due December 10, 2006.

5. FIXED ASSETS

	March 31, 1990			March 31, 1989
			($000)	
	Cost or Appraised Value	Accumulated Depreciation	Net Book Value	Net Book Value
Ships owned	$ 269,820	$ 170,729	$ 99,091	$ 109,798
Ships under capital lease	127,971	56,842	71,129	76,680
Berths, buildings and equipment	167,458	124,123	43,335	47,474
Land	5,695	-	5,695	5,695
Construction in progress	11,278	-	11,278	3,278
	$ 582,222	$ 351,694	$ 230,528	$ 242,925

6. LONG TERM DEBT

	March 31, 1990	March 31, 1989
	($000)	
8.95% Promissory notes (effective rate of 15.75%), are repayable in equal annual instalments of $5.7 million	$ 11,400	$ 17,100
Less current portion	5,700	5,700
	5,700	11,400
12.08% Promissory note (effective rate of 12.44%) due September 9, 2003 is repayable by annual sinking fund payments of $322,492	14,758	14,758
	$ 20,458	$ 26,158

The Province of British Columbia unconditionally guarantees the payment of principal and interest on the promissory notes.

7. OBLIGATIONS UNDER CAPITAL LEASES

The Corporation has obligations under capital leases for the M.V. "Queen of Oak Bay", M.V. "Queen of Surrey", M.V. "Quinsam" and other equipment.

Total future minimum lease payments for fiscal years ending in:	($000)
1991	$ 8,380
1992	9,218
1993	9,218
1994	9,218
1995	9,218
1996 and subsequent	128,144
	173,396
Less interest at implicit rates between 8.14% and 10.64%	86,047
Present value of net minimum capital lease payments	87,349
Less current portion	1,476
	$ 85,873

8. CAPITAL SUBSIDY

	March 31, 1990	March 31, 1989
	($000)	
Capital subsidy at beginning of year	$ 33,439	$ -
Provincial Government subsidy, capital portion	44,085	33,530
	77,524	33,530
Annual amortization	1,428	91
Capital subsidy at end of year	$ 76,096	$ 33,439

9. ACCRUED SICK LEAVE LIABILITY

In 1978 the Corporation introduced short-term illness and injury and long-term disability plans and as of that date all employees ceased accruing sick leave credits. In the event of illness the accumulated sick time may be withdrawn. On retirement, any balance remaining is payable in cash at 50% of accredited time.

An actuarial evaluation by The Alexander Consulting Group Limited as at March 31, 1988 determined that the recorded liability for the portion payable on retirement was $395,000 in excess of that required. This excess is being reflected in operations over three years ending March 31, 1990.

Funds have been designated to meet the accrued sick leave liability (Note 3).

10. RESTATEMENT OF PRIOR YEAR'S FIGURES

As a result of the retroactive application of the change in accounting for refit costs and the reclassification of the capital portion of the annual subsidy received from the Province of British Columbia (as described in Note 1), the deficit at the beginning of the year has been adjusted as follows:

	March 31, 1990	March 31, 1989
	($000)	
Deficit, beginning of year as previously reported	$ 38,480	$ 50,354
Effect of change in accounting for refit costs	(2,772)	(3,469)
Adjustment for reclassification of capital portion of annual subsidy	33,439	-
Deficit, beginning of year as restated	$ 69,147	$ 46,885

For the year ended March 31, 1989, operating revenues have been decreased by $33,530,000 and operating expenses increased by $606,000 to reflect the above adjustments.

11. RELATED PARTY TRANSACTIONS

In addition to the Provincial Government subsidy of $51 million, the Province pays $4.8 million for annual leases of three ships which are leased from the Province at an annual cost of $1 each.

The Corporation utilizes Crown land for terminals and highway access without the payment of rental or property taxes. The value of these benefits has not been determined. Section 21 of the Ferry Corporation Act states: "The Corporation, as an agent of the Crown, is not liable to taxation, including taxation on improvements, except insofar as the Crown is liable".

The Corporation engages in transactions with other government agencies, departments and Crown Corporations, notably B.C. Hydro and Power Authority and B.C. Systems Corporation, on normal commercial terms.

On April 2, 1990, the Corporation received a discounted prepayment of the 1990-91 Provincial Government subsidy in the amount of $48.5 million.

12. PENSION PLAN

The Pension (Public Service) Act applies to the Corporation and its officers and employees. Accordingly, the Corporation is required to pay into the Public Service Superannuation Fund amounts prescribed from time to time by Regulation.

13. SUBSEQUENT EVENT

On May 11, 1990, the Corporation signed a contract for $17.7 million for the construction of an 85-car ferry due to be delivered in June 1991. This contract is the first in the Corporation's 10-year, $440 million capital expansion program.

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HAROLD J. LONG

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ALLAN OKABE

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C.M. (MACK) STONE

MICHAEL D.W. YOUNG

OFFICERS

CORPORATE INFORMATION